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March 15, 1996



Minerals Management Service
Royalty Management Program
Rules and Procedures Staff
Attention: David S. Guzy
Denver Federal Center, Building 85
P. O. Box 25165
Mail Stop 3101
Denver, CO 80225-0165

Dear Mr. Guzy:

RE: VALUATION OF OIL FROM FEDERAL LEASES

Spot or short term prices for crudes vacillate considerably depending on the short term inventories and production expectancy for specific crudes. The concept of posted prices for crudes was developed as a way to establish a pricing basis indicative of long-term contract prices with more stability than spot prices which can vary markedly from one day to the next, and even can go up or down significantly during one day. When recognizing that finding and producing an oil field is a long-term project, long-term sales prices appear to be the most appropriate pricing mechanism. In most if not all companies a party entering into a long-term commitment to purchase a commodity expects the cost to be somewhat lower than the average price for which it could be purchased in the spot market over the same period of time.

Spot or short-term prices for crudes at specific terminals are quoted continuously within the Merc system. However, crudes procured via this system account for an extremely small percentage of the crudes being purchased for use as refinery feedstock. Many times as many Merc crude trades are just "paper trades" by speculators as they are contracts which will result in actual sales of crude for use as refinery feedstock. Far and away the majority of the domestic crudes processed in refineries in the U.S. has been procured by subsidiary operations of refining companies, and they have been purchased on a posted price basis.

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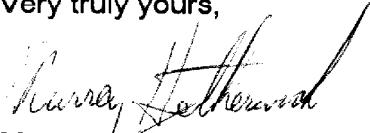
Admittedly there may be times when some crude oil purchasing entities will try to take advantage of the lock they have on specific producers' outputs by posting unreasonably low prices. When such problems arise they should be addressed through steps which do not cause the elimination of the long-term or posted price bases. Over a year's period of time it is realistic to expect the initial crude purchaser to pay an average price for a crude which is lower than the price for which it could be sold by an amount equal to the administrative costs associated with the accounting, legal and dispersion of funds to producers and royalty owners plus a small but reasonable overhead or profit margin.

It is interesting to note that the companies whose posted prices are normally significantly higher than other companies posting prices in the same area only agree to pay their price for certain crudes, not for any producer's crude in the area. They will buy the crudes for which they have division order contracts wherein a producer will deliver its crudes on a long term basis whether or not spot crudes might be sold at prices above the posted price and the purchaser commits to buy the crude even when lower cost crudes are available in the market.

It is our understanding that the MMS program for making RIK crudes available to small business refiners was developed as a mechanism for providing an opportunity for such to procure crudes at costs comparable to those of large refiners, particularly those who both produce and refine oil. So long as those companies are going to be able to acquire crudes on a posted price basis which is somewhat lower than spot crude prices the small business refiners should also be permitted to do so. Any corrective efforts aimed at improving the crude pricing system should be aimed at assuring that posted prices are reasonable.

A possible way of pricing crudes which could be considered when contemplating a change in the procedures might be one of retroactively adjusting prices after obtaining actual historical crude sales information. However, we strongly object to this concept. Retroactive pricing adjustments would be particularly onerous for small business refiners. Neither small nor large refiners would be able to pass additional costs back to companies who had purchased the products. Thus any retroactive price increase for crudes would have to be paid out of the refining company's cash reserves. The probability or even possibility of retroactive pricing adjustments would be much more detrimental to the financing arrangements for small companies than for the very large ones.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Murray Hetherwick", is written over a horizontal line.

Murray Hetherwick

Nice President